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TO RUEHC/SECSTATE WASHDC PRIORITY 3589
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RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDOG/DEPT OF COMMERCE
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SENSITIVE
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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR RKING
USDOC FOR 4332 MAC/ITA/WH/JLAO

E.O. 12958: N/A

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SUBJECT: VENEZUELA'S ECONOMY CONTRACTS IN THE SECOND QUARTER

REF: A. CARACAS 819

[1](#)B. CARACAS 368

[1](#)1. (SBU) Citing a statement e-mailed by the Venezuelan Central Bank (BCV), news organizations reported August 20 that BCV figures indicated Venezuela's economy contracted 2.4 percent in the second quarter of 2009. (Note: As of the afternoon of August 20, the BCV had not posted the figures on its website. End note.) This contraction was widely anticipated (ref A) and reflects the impact of the drop in oil prices in the second half of 2008 on government spending and the economy at large. Indeed, a number of local analysts believe the contraction began in the first quarter of 2009. Citing BCV sources, they claim initial first quarter figures showed a slight contraction, causing newly arrived BCV president Nelson Merentes, perhaps at the bidding of President Chavez, to ask state-owned enterprises to submit revised production figures, which led to a positive figure for first-quarter growth.

[1](#)2. (SBU) Comment: What will be more interesting than the figures themselves is how President Chavez explains them. When the financial crisis began spreading to the real global economy in 2008, he first maintained Venezuela would not be affected. He then revised his line to say Venezuela was "not immune" to the crisis but had the reserves to manage it. When he announced several "anticrisis" economic measures in March (ref B), he insisted the crisis "had not touched even a hair of Venezuela." Chavez has recently said he was reviewing measures that would bring better balance to Venezuela's foreign exchange system, so we think it likely he will make at least one address on economic issues in coming days or weeks. A hint of how he will address the economic contraction is provided in the BCV's statement to news organizations, which notes Venezuela's contraction "came after 22 consecutive quarters of growth and more than a year after the global financial crisis negatively impacted the economic performance of most countries in the world." End comment.

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